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SUBJECT: The Japan Economic Scope - March 30, 2007

Sensitive but unclassified. Please protect accordingly.

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[¶3. \(U\) Seiyu to Sell U.S. Beef, Larger Trade Issue Still Stalled](#)

Seiyu, a major Japanese supermarket chain, will begin selling U.S. beef at its 19 Tokyo area stores by the end of March. The Ambassador was at the chain's launch ceremony on March 29 at Seiyu's Kinshicho outlet, with numerous reporters and TV cameras on hand. He told the press that many Japanese consumers want to eat U.S. beef and expressed optimism that other food chains would also begin to sell it.

Shown eating a sampling of U.S. beef products, the Ambassador

urged Japanese authorities to ease import restrictions. "I hope the restrictions will be lined up with those of other countries in the world," he was quoted in the March 30 Mainichi as saying.

The major television networks covered the story on Thursday night, showing the Ambassador tasting samples. Creating his own photo opportunity, the Ambassador also made a point of purchasing some U.S. beef products in front of the press. (ECON: Nicholas Hill)

14. (SBU) U.S. Beef Still on Slow Track?

Vice Agriculture Minister Yoshio Kobayashi told a press conference on March 29 that he did not expect Japan to be in a position to ease restrictions in time for the Summit between Prime Abe and President Bush at the end of April. He said, "We are not at the stage to respond to talks," according to Nikkei. According to the press report, "accurate scientific data" should be the primary factor in determining when to ease restrictions. Kobayashi's remarks came after President Bush told the National Cattlemen's Beef Association earlier in the week that beef would be on the bilateral agenda when he meets Prime Minister Abe in April. According to the Japan Agricultural News, Chief Cabinet Secretary Shiozaki told reporters on March 29 that details on the

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agenda were still not set, and any decision on easing import restrictions in Japan would be based on "food safety" considerations.

Separately, in a meeting with Vice Foreign Minister Kohno on March 30, the DCM underscored Washington's desire to see a quick resolution of this trade problem. Japan's restrictions on beef trade were receiving enormous attention in Washington. The Embassy continues to stress the expectation that Japan base its

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import restrictions on scientific criteria consistent with international standards. (ECON: Nicholas Hill)

15. (SBU) Meat Export Federation President in Tokyo

The President of the U.S. Meat Export Federation (MEF), Phil Seng, was in Tokyo March 29 assessing the Japanese market.

During a meeting with the DCM, he underscored his concerns about Japan's current 100 percent box testing policy, which delays import processing and puts a major crimp on sales of U.S. beef.

Japan's 100 percent box testing policy could become an even bigger impediment to trade later in the spring when beef exports to Japan are expected to surge. Industry sources tell us that, for reasons unrelated to existing trade policies, the amount of U.S. beef from cows under 20 months of age increases naturally in the spring, enabling more exports to Japan.

We have emphasized to the Japanese authorities our hope that Japan will respect the judgment of the World Organization for Animal Health (OIE), which is expected to place U.S. beef in a safe -- or "controlled risk" -- category when it meets in May. Japanese authorities have so far not shown an inclination to move quickly in line with OIE standards and have outlined a process that could take until the first half of 2008 at the earliest before the market is fully open.

In addition to meeting the DCM, Seng discussed the situation in Japan with representatives from the industry, before departing for Korea to assess the situation there as FTA negotiations draw to a close. (ECON: Nicholas Hill)

16. (SBU) EMIN Meets New CPRR Member Okina

On March 27, EMIN paid a courtesy call on Yuri Okina who heads the Council for the Promotion of Regulatory Reform's task force

on finance and competition policy. She also serves on the FSA's Financial System Council, and was a former member of the Advisory Council on Postal Privatization.

Okina explained that the CPRR will focus on regulations in the social services area such as medical services and agriculture, among other issues. She added that the Council considers it important to follow-up on previous commitments.

In the financial services area, she noted that progress has been made since the "Big Bang" of the 1990s, but much remains to be done to raise the international competitiveness and user-friendliness of Tokyo's financial markets. She also noted that it was regrettable how little No-action letters are used by the Financial Services Agency, and stressed the need for additional transparency in the regulation of Japan's financial services. Although not a focus of the Council's work, she continues to have personal interest in the Postal Privatization process. Meanwhile, on March 28 the CPRR met to move forward with its work.

By naming its seven priority areas "Dash Seven" and echoing the themes taken up by Prime Ministers Abe's policy initiatives, the Council is trying to send a message that reform efforts have not lost momentum since the new Prime Minister took office. Abe's support to the Council is seen as a key to achieving progress in difficult areas.

The Council plans to issue its first report in mid-May, which will be reflected in the government's Three-Year Plan on Regulatory Reform for 2007-2009. (ECON: Hans Klemm/Masumi Ono)

17. (U) Regulatory Reform's Economic Benefits Detailed

The Cabinet Office announced on March 28 that regulatory reform measures taken from FY 1991 to FY 2005 have produced 18.3 trillion yen worth of benefits to the Japanese economy, i.e., 140,000 yen per capita. The increase amounts to 3.8 trillion more (26 percent increase) than a similar study reported in 2002. In calculating the effects, the Cabinet Office looked at: 1) prices reduced as a result of an increase in competition; and 2)

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increase in market demand -- comparing these to the scenario without the relevant regulatory reform.

Among the 14 sectors studied, the electricity sector contributed the most with a 5.6 trillion yen increase, as a result of a 39.1 percent price decrease and 18.6 percent increase in market size since 2004.

The second biggest contributor was the trucking industry with 3.4 trillion yen, as a result of a 27.5 percent price decrease in 2004 compared to 1990 and lower barriers to entry.

Deregulation in the cell phone industry brought benefits of 2.8 trillion yen owing to the 60 percent price decrease and a 20 fold increase in market size.

The economic impact by the industry has slowed down in recent years as most major reform measures have already been implemented.

Sectors such as domestic air travel and liquor sales have not produced much effect, with 8.8 percent and 11.6 percent price declines, respectively.

The Cabinet Office's report is available in Japanese on the website:
<http://www5.cao.go.jp/keizai3/2007/0328seisakukoka22-2.pdf> and
<http://www5.cao.go.jp/keizai3/2007/0328seisakukoka22-1.pdf>
(ECON: Masumi Ono)

18. (SBU) MOFA Econ DG on Sub-Cabinet, Summit Prep

Tokyo 1377 reports on a March 28 conversation by EMIN and ECOUNS with MOFA Economic Affairs Director General Yoichi Otabe. Topics covered included the content of the upcoming Sub Cabinet meetings in Washington, Prime Minister Abe's visit to the United States, and Japanese plans for next year's G-8 meetings. (ECON: Chris Wurzel)

¶9. (U) Japan-Chile Economic Pact Signed

Foreign Minister Taro Aso signed the text of a Japan-Chile economic partnership agreement with visiting Chilean Foreign Minister Alejandro Foxley on March 27. The agreement will likely take effect in the fall after receiving approval from the Japanese and Chilean parliaments.

According to press reports, the pact will eliminate tariffs on 92 percent of bilateral trade by value. Chile will eliminate tariffs on almost all Japanese industrial products over 10 years with the immediate removal of the six percent tariff on Japanese automobiles and general machinery. Japan will get rid of tariffs on almost all industrial products from Chile over 10 years and will eliminate its average 17.6 percent tariff on bottled Chilean wine in stages over 12 years and its 3.5 percent tariff on salmon and trout from Chile over 10 years. Japanese tariffs on Chilean pork and beef will continue, however.

Chilean copper and other metal ores -- which account for more than half of its export value to Japan -- have already been given duty-free market access.

Chile ran a JPY 717 billion (about \$6.1 billion) trade surplus with Japan in 2006. Nevertheless, Japan's trade with Chile accounted for less than 0.2 percent of Japanese exports and only about 1.3 percent of total imports. Click here to read the full agreement and its annexes in English on the Japanese Ministry of Foreign Affairs website. (ECON: Chris Wurzel)

¶10. (SBU) NEXI Tightens Short-Term Trade Insurance for Iran ----

Effective March 15, Japan's primary trade insurance organization, Nippon Export and Investment Insurance (NEXI), reduced from 12 months to six months the maximum repayment term for routine short-term export credit insurance for trade with Iran. Although longer coverage will still be considered on a case-by-case basis,

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a government contact noted that the practical effect would be to reduce NEXI's overall risk exposure to Iran.

For more details, see Tokyo 1346. (ECON: Marc Dillard)

¶11. (SBU) MLIT DDG on U.S.-Japan Civ Air Talks

On March 28, EMIN and ECOUNS met with Ministry of Land, Infrastructure and Transport (MLIT) Deputy Director-General and lead GOJ civil aviation negotiator, Ryuhei Maeda, to discuss Japan's views on the April 3-4 U.S.-Japan Civil Aviation negotiations.

Maeda said his primary objective is to obtain a U.S. commitment to limit substantially the number of new slots received by U.S. carriers at Narita Airport once its second runway's extension is completed in 2010.

He opposes an open sky agreement that does not provide "equal footing" for the United States and Japan.

Maeda remained firm on Haneda airport being for domestic and short-haul international flights and Narita for long-haul international flights, but noted the allocation of new international slots at Haneda could be adjusted several years after the fourth runway opens in 2010, if necessary.

He thought demand was strong enough in the region that opening Haneda to international flights would not free-up significantly more slots at Narita.

He observed that U.S. carriers' fifth freedom rights are becoming less valuable as there are more direct flights to mainland Asia, but noted that U.S. carriers still use a substantial number of slots for beyond flights.

For more details see attached Tokyo 001386. (ECON: Josh Handler)

¶12. (SBU) MLIT's Ports and Harbors Bureau on Japan's Port Policies

We met with MLIT's Ports and Harbors Bureau on March 14 to discuss how Japanese port operations may relate to proposals being discussed in the U.S.-Japan regulatory reform talks. The Bureau provided some helpful information on the competitiveness of Japanese ports, the status of Japan's Super Hub Port Project and the changes in the Port Transportation Business Law in 2006. A write-up of the meeting is attached. The bureau also gave us a Power Point presentation in English on its work and the Super Hub Port Project. Please contact Josh Handler if you would like a copy. (ECON: Josh Handler)

¶13. (U) Yucho Plans to Offer Consumer Loans after Privatization

Japan Post said Monday that it intends to begin offering mortgages and other forms of personal financing soon after it is privatized in October to bolster its financial operations, according to Nikkei.

Postal savings have been steadily declining in recent years as depositors seek higher returns elsewhere. Since 1999, deposits outstanding are down about Q70 trillion (~\$600 billion) and continue to fall at a rate of just over six percent a year, so the bank is likely to seek rapid introduction of new products after October 1 to attract customers. (FINATT: Jon Habjan)

¶14. (U) JA Kyosai Aims to Win Two Million New Insurance Contracts

JA Kyosai Ren (National Federation of Agricultural Co-operative Insurance Association) announced its three-year plan to increase the number of its new insurance contracts.

Facing fierce competition in the market in connection with the decreasing number of workers and aging households in the agriculture sector, the privatization of Japan Post's insurance

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arm, and further liberalization of bank sales for insurance products, JA Kyosai came up with concrete figures to achieve its goal by expanding sales channels, including door-to-door sales. It aims to achieve 2.04 million new contracts in three years by visiting every member's household to promote the sales. The product line will also shift from life insurance to medical and annuity insurance, in particular, targeting a threefold increase in medical insurance. (ECON: Eriko Marks)

¶15. (U) Consumer Lender Orient Gets a \$2.5 Billion Transfusion

Following a forecast of annual losses projected to reach 458 billion yen, consumer Finance firm Orinco (Orient Corporation) arranged for a 290 billion yen (\$2.5 billion) bail-out from its main creditor, Mizuho Financial Group, and four more investors, including Morgan Stanley and KKR.

According to March 28 reports, Mizuho will enact a debt-equity swap of 140 billion yen, and purchase 45 billion yen in non-voting preferred shares, on top of waiving 288 billion yen in

loans to Orinco.

Not only is the consumer finance industry beset by an impending, lower interest rate ceiling, but ongoing "grey zone" litigation that is prompting firms to increase their reserves against claims of illegal interest payments. (FINATT: Mateo Ayala)

¶16. (SBU) New JETRO Chairman

Prime Minister Abe on March 30 appointed Yasuo Hayashi, a former career METI official and former Director General of METI's Trade Policy Bureau to be the new chairman of JETRO (Japan External Trade Organization.) The change, the first at the top of Japan's trade promotion agency in five years, is effective April 1.

Since 2000, Hayashi has worked for Mitsui Bussan Corporation, where he served most recently as Managing Director (Europe) and Senior Advisor to the Chairman. Hayashi's appointment will be officially announced at a news conference on April 2. (ECON: David DiGiovanna)

¶17. (U) METI Reactivates its Corporate Value Study Group

METI Vice Minister Kitabata this week announced the reactivation of the ministry's Corporate Value Study Group, an advisory council of academics, lawyers and business executives, which, during the debates ahead of passage of the Company Law, was a strong advocate for liberalizing Japan's M&A regime.

According to press reports, the ministry will ask the study group to examine current rules concerning management buyouts and advise whether stronger legal protections for minority shareholders are needed. The working group may also examine the growing number of defensive measures companies are adopting to determine their impact on the M&A climate. (ECON: David DiGiovanna)

¶18. (SBU) Former Minister Plugs Work-Life Balance Initiative

Former Minister of State for Gender Equality and Social Affairs Kuniko Inoguchi told a small group of diplomats March 26 that Japan would have to do three things to improve work-life balance and raise Japan's birthrate: 1) offer more economic assistance to families; 2) empower women in the workplace; and 3) increase men's involvement in childcare activities at home. Presenting data from OECD countries, Inoguchi explained that Japan ranks low in all three areas, and that a positive correlation exists between those factors and an increased birthrate.

Inoguchi offered a list of concrete proposals to foster better work-life balance, including a 20,000 yen per month subsidy for children under two years old, expanded nursery school and childcare center hours, greater use of school buses, and passage of proposed labor legislation to make overtime more costly and less common. She waxed eloquent about former PM Koizumi's support for her work and connected that to the slight upturn in births in 2006. Following a last-minute question, she offered

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that her plan had been roundly discussed in the LDP and PM Abe and the current cabinet were on board, too. (ECON: Marc Dillard)

¶19. (U) Diet Approves Conservative Regular Budget for FY07

The Diet approved the central government's regular budget for FY07 (April 2007 -- March 2008) on March 26.

As is the typical budgetary pattern, the regular general account budget for FY07 shows an increase of 4.0 percent in overall outlays over the initial FY06 budget, but a decline of 0.7 percent from the revised FY06 budget, inclusive of the supplemental. The FY07 budget projects a record Q4.5 trillion

(nearly 1 percent of GDP) reduction in government bond issuance, thanks to the expected brisk growth in tax revenues.

With the sizable cut in deficit, Finance Minister Omi had pointed out in a December 20 press conference the possibility of moving up the current FY11 target to achieve primary fiscal balance of the central and local governments by one or two years. See attached document for more details. (FINATT: Shuya Sakurai)

¶20. (U) MOF Plans to Reduce Government Assets by Roughly Q140 Trillion by FY2015

The government's fiscal consolidation plan, adopted in July 2006, called for reducing government assets by approximately Q140 trillion (27% of GDP), or nearly 20% of total assets by the end of FY2015, in order to minimize the rise in taxpayer burdens through downsizing the government balance sheet.

On March 27, Finance Minister Omi submitted a breakdown of the figures for the Q140 trillion to the Council on Economic and Fiscal Policy (CEFP). On March 28, the Diet passed the legislation necessary to implement the asset sales. Please see attached document for further details.

(FINATT: Shuya Sakurai)

¶21. (U) Japanese Economy on "Smooth Track," Says Nikkei

A March 28 Nihon Keizai article provides a window on Japan's economy as the baby boom generation begins to retire. "The economy is on a mild but stable growth track," the article says. It describes how the baby boomers getting ready to retire in the next couple of years, born between 1947-49, number about 7 million, will have a "major impact" on the economy. For an abridged English translation of the article, see the following attachment. (ECON: Nicholas Hill)

¶22. (U) Land Price Deflation Ends: Prices Up First Time in 16 Years

Average residential and commercial land prices in Japan both edged up for the first time in 16 years, according to the January 1 Koji Chika survey conducted by the Ministry of Land, Infrastructure and Transport (MLIT), which announced the results on March 22.

The main factors leading to the turnaround in land prices include firm demand for residential and office space in major metropolitan areas and a robust inflow of investment, thanks to low interest rates and the current economic recovery, which is Japan's longest in the postwar period. See attached document for more details. (FINATT: Shuya Sakurai)

¶23. (U) Core Consumer Prices Down 0.1 Percent in February

Japan's nationwide core CPI, which excludes perishable food items, fell 0.1 percent in February from the year before, posting the first decline in ten months, the Ministry of Internal Affairs and Communications (MIC) announced March 30.

This core CPI decline was in line with expectations of Bank of Japan Governor Fukui and private market analysts. In his March 20 press conference, Fukui indicated that core consumer prices

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may decline slightly in February and March from the year before, adding that the declines in consumer prices will be temporary. View the attached document for more details. (FINATT: Shuya Sakurai)

¶24. (U) Manager Slaps Down Economic Section, but Embassy Defeats Diet in Baseball Anyway

It was one of the most stunning victories in the history of human endeavor. In anticipation of the event, traffic slowed down to a crawl outside the Tokyo Dome; the Diet, Japan's parliament, recessed early; the Pope took time off from preparing his Easter Homily; and MLB scouts poured into Japan's baseball Mecca as the U.S. Embassy and Japanese Diet teams took the field on March 26. By the end of the evening, the Embassy team had won resoundingly, pouring six runs across the plate and holding the Dieters to just five.

"Baseball has been very, very good to me," said Yoshi Gooootoooh, after he went away with the MVP award for the contest. The shortstop and, for a brief while, pitcher for the Embassy team put in a sterling performance, driving in two runs with a double to the power alley in left and another single. He also didn't hit a batter while on the mound, earning him an extra bonus baseball cap signed by the Ambassador, who was the Embassy team's manager emeritus. "I'll never forget this day or -- as he paused and strained to maintain his composure -- The Cap," a misty-eyed Gooootoooh told a throng of NHK reporters as he left the field after the post game award ceremony.

The rest of the Embassy team was equally euphoric. "We played our hearts out," said Corbin Cowley, who was a human vacuum cleaner at shortstop. Masquerading later as the catcher, Cowley got the final out of the game, as he raced down the first base line to tag out the runner after a dropped third strike with the tying run at third. "It was a planned play," he told ESPN's Peter Gammons, doing a live feed for Baseball Tonight. The game was not close until the fifth inning, when the Embassy's Hisao Fukuda on the mound did his best Shoeless Joe Jackson imitation, throwing away an easy out on a ground ball to the pitcher. (It was the play every Red Sox fan alive expected of Keith Foulke on what turned out to be the last play of the 2004 World Series.) Explained Fukuda of the FAS section, "I was having so much fun I just threw the ball away so I could keep pitching. What's wrong with that?" The error led to three unearned runs, as the lead dissipated to 6-4.

A Lou Gehrig Moment?

Hard-nosed Embassy manager Brian Gerhart's inspirational pre-game speech to the stadium crowd left nobody sitting down in the 50,000-seat Tokyo Dome. "The spectators must have been sky high listening to that," said Dave Davison in awe to a TBS reporter afterward. "We couldn't see a single person sitting anywhere in that vast stadium." The crowd was so out of control that the concessions stands closed down early and the ushers went AWOL. Not Without Controversy...

Gerhart's player selection came under fire before the game started, as he cut a number of stars from the Economic Section who were expected to dominate the roster. The only player other than himself from the Section who played was banished to the bench after catching a laser shot in right field, walking on four pitches, and stealing second base.

The stud pitcher for the Diet team later conceded that the Econ players made him shake in terror on the mound. "We didn't want to show up the Diet players," a somewhat defensive Gerhart told an SI.COM reporter afterward. "Clearly the Econ Section players are the class of the Embassy."

A scout with the Minnesota Twins expressed bitterness when he saw the line up card. "I flew all the way to Tokyo to see Chris Wurzel and Dan Fantozzi pitch, and they're not even on the roster.

What are we going to do now when Santana and Liriano sign with the Yankees?" Not all was lost: he added that he would offer a contract to the other Econ section outfielder that Gerhart benched. "Can't do better than a 1.000 on base percentage -- and

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what amazing speed."

As the Tokyo Dome crowd thinned out and the festivities outside

the park settled down long after midnight, the Red Sox players filed out past the well wishers toward the team bus. Gooootoooh threw his new cap in the direction of a screaming mob of groupies in miniskirts. Asked by the Ambassador why he threw away the cap he said he would never forget, Gooootoooh paused, and said "I forgot." And then the MVP climbed onto the bus and fell asleep. (ECON: Nicholas Hill)

Editor's Note: The Scope's sports correspondent filed this report while on vacation in Akasaka.

SCHIEFFER